STATE OF INDIANA

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2008

Mitchell E. Daniels, Jr., Governor

Prepared by:

The Office of the Auditor of State
Tim Berry
Auditor of State
Room 240
State House
Indianapolis, Indiana 46204

Acknowledgments

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We extend special thanks to Stacey Halvorsen, CPA, and all employees of State agencies throughout Indiana. Your cooperation and assistance in the preparation of this Comprehensive Annual Financial Report has been invaluable.

Please visit our web site at **www.in.gov/auditor/**

Tim Berry was elected Indiana's 54th State Auditor in November of 2006, taking office January 1, 2007.

As Auditor, Berry serves as the Chief Financial Officer for the State of Indiana, compiling all financial reports, overseeing in excess of 6,000,000 distributions annually to vendors and units of local government. Tim Berry is committed to making state finances more transparent to all taxpayers, and to implement a state financial accounting system as a management tool to provide more efficient state government operations. Berry is also committed toward greater financial literacy for all Hoosiers and providing retirement education to public employees saving through the state's Hoosier Start Deferred Compensation plan. As Auditor, Berry serves as the administrator of this plan. During his inauguration speech Berry said, "As Auditor we won't often make headlines, but we will continue to listen – continue to lead – continue to make a difference for all Hoosiers".

Prior to his election as State Auditor, Tim served two successive terms as Indiana's 51st State Treasurer, first being elected in 1998. A fiscal conservative, Berry keeps taxpayers first in recognizing that taxpayers deserve a government that is equipped to do more with less, as Berry returned in excess of 10% of his budget appropriation back to the state general fund throughout his tenure.

As Treasurer, Berry earned a record $1.7 billion through the prudent investment of Hoosier tax dollars. Through Tim's leadership Hoosiers saved millions of dollars in communities across the state through the efficient use of the Indiana Bond Bank. As Chair of the Wireless 911 Advisory Board, Indiana built the most advanced wireless 911 network in the country while providing over $96 million to counties so that they could upgrade their 911 technology. As Chair of the Education Savings Authority, Berry worked to provide greater opportunities and incentives for families to save for college, and obtained legislation to provide a 20% tax credit up to $1000 on contributions to a College Choice 529 Investment Plan. Additionally, Tim Berry led the effort to provide a creative solution to assist local communities with their unfunded police and fire pension liabilities, providing over $50 million to cities across the state without increasing taxes between 2001 and 2006.

Tim Berry's leadership has been recognized by many across the country. He served as President of the National Association of State Treasurers and Chair of the College Savings Plans Network. Berry was awarded the Jesse Unruh Distinguished State Treasurer Award in 2005, the 2003 Presidential Award of Excellence by the Association of Public-Safety Officials, is the 2003 recipient of the American Heart Association's Heartsaver Award, was recognized for leadership by the State of Israel in 2003 through the State of Israel Bonds, and in 2000 the Indianapolis Business Journal recognized Tim with their "40 under 40" designation.

Tim Berry
Indiana Auditor of State

Tim Berry is a 1980 graduate of Fort Wayne's, Wayne High School, and a member of Trinity English Lutheran Church in Fort Wayne. He serves as Treasurer of the Fishers Youth Hockey Association, and a coach in the Fall Creek Little League where his sons Ian and Colin both play. Tim holds a BS in Business Administration from Bowling Green State University and a MBA from Indiana University. Tim and his wife Kim are the proud parents of two sons, Ian and Colin. Kim has served since 2001 as the State Director of the Cystic Fibrosis Foundation.

AUDITORS OF STATE
Of THE STATE OF INDIANA

Term	Name	Politics
1816-1828	William H. Lilley	Party Unknown
1828-1829	Benjamin I. Blythe	Party Unknown
1829-1844	Morris Morris	Party Unknown
1844-1847	Horatio J. Harris	Party Unknown
1847-1850	Douglas Maguire	Whig
1850-1853	Erastus W. H. Ellis	Democrat
1853-1855	John P. Dunn	Democrat
1855-1857	Hiram E. Talbot	Fusion-"peoples"
1857-1861	John W. Dodd	Democrat
1861-1863	Albert Lange	Republican
1863-1865	Joseph Ristine	Democratic Union
1865-1869	Thomas P. McCarthy	Republican
1869-1871	John D. Evans	Republican
1871-1873	John C. Shoemaker	Democrat
1873-1875	James A. Wilder	Republican
1875-1879	Ebenezer Henderson	Democrat
1879-1881	Mahlon D. Manson	Democrat
1881-1883	Edward H. Wolfe	Republican
1885-1887	James H. Rice	Democrat
1887-1891	Bruce Carr	Republican
1891-1895	John O. Henderson	Democrat
1895-1899	Americus C. Daily	Republican
1899-1903	William H. Hart	Republican
1903-1905	David E. Sherrick	Republican
1905-1906	Warren Bigler	Republican
1906-1910	John C. Billheimer	Republican
1910-1914	William H. O'Brien	Democrat
1914-1916	Dale J. Crittenberger	Democrat
1916-1920	Otto Clauss	Republican
1920-1922	William G. Oliver	Republican
1922-1924	Robert Bracken	Democrat
1924-1928	Lewis S. Bowman	Republican
1928-1930	Arch N. Bobbit	Republican
1930-1934	Floyd E. Williamson	Democrat
1934-1938	Laurence F. Sullivan	Democrat
1938-1940	Frank G. Thompson	Democrat
1940-1944	Richard T. James	Republican
1944-1948	Alvin V. Burch	Republican
1948-1950	James M. Propst	Democrat
1950-1954	Frank T. Millis	Republican
1954-1956	Curtis E. Rardin	Republican
1956-1958	Roy T. Combs	Republican
1958-1960	Albert A. Steinwedel	Democrat
1960-1964	Dorothy Gardner	Republican
1964-1966	Mark L. France	Democrat
1966-1968	John P. Gallagher	Republican
1968-1970	Trudy Slaby Etherton	Republican
1970-1978	Mary Aikins Currie	Democrat
1978-1982	Charles D. Loos	Republican
1982-1986	Otis E. Cox	Democrat
1986-1994	Ann G. DeVore	Republican
1994-1998	Morris Wooden	Republican
1999-2006	Connie K. Nass	Republican
2007-	Tim Berry	Republican

STATE OF INDIANA

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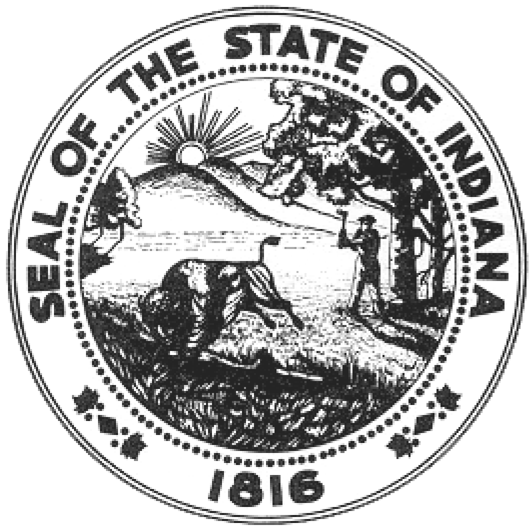
SEAL OF THE STATE OF INDIANA
1816

AUDITOR OF STATE

Tim Berry

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December 30, 2008

Governor,
Members of the General Assembly,
Citizens of the State of Indiana:

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Indiana's fiscal year ended June 30, 2008.

This Comprehensive Annual Financial Report has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board. While management remains primarily and ultimately responsible for the contents and presentation of this report, responsibility for both the accuracy of the data presented and completeness and fairness of the presentation rests with the State agencies that provide the data and are obligated to verify postings. We believe the information set forth in this report is accurate in all aspects and is presented in a manner designed to set forth the financial position and results of operations of the State as measured by the financial activity of its various funds.

State statute requires an annual audit by the Indiana State Board of Accounts. The Board is considered by federal and State government to be independent auditors. The Independent Auditor's Report on the financial statements is included in the financial section of this report and in the Statewide Single Audit Report of the State of Indiana.

The State is responsible for ensuring that an adequate internal control structure is in place to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized user disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits likely to be derived and that the evaluation of costs and benefits requires management to make estimates and judgments.

This internal control structure is subject to periodic evaluation by management and internal audit staff of the various State agencies. As part of the Single Audit, tests are made to determine the adequacy of the internal control structure related to federal financial assistance programs, as well as to determine that the State of Indiana has complied with applicable laws and regulations.

The State has adopted GASB Statement No. 34 as required by Generally Accepted Accounting Principles. GASB 34 provides for two types of statements, government-wide and fund statements. The government-wide statements are very similar to the private sector's statements, using the full accrual basis of accounting and the economic resources measurement focus. The governmental funds financial statements use the modified accrual basis of accounting and the current financial resources measurement focus. In the government-wide statements, infrastructure (roads, bridges, dams) has been capitalized. Capital assets, except for infrastructure using the modified approach, are depreciated like the private sector.

GASB Statement No. 34 provides for the presentation of Management's Discussion and Analysis (MD&A) in the Financial Section. The MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities. It is presented before the basic financial statements. We encourage you to read it to get an in-depth analysis of the State of Indiana's finances.

This CAFR is presented in three sections: Introductory, Financial, and Statistical.

The Introductory Section includes this transmittal letter, a list of former Auditors of State, the Table of Contents, the Certificate of Achievement for Excellence in Financial Reporting Award, and the State Organizational Chart that includes a listing of selected State Officials.

The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements, required supplementary information, and other supplementary information.

The financial statements include government-wide and fund financial statements, representing all funds for which the State of Indiana is accountable, based on criteria for defining the financial reporting entity prescribed by the Governmental Accounting Standards Board. The criteria for inclusion are based on fiscal dependency, financial accountability, selection of governing authority, and ability to significantly influence operations. Based on these criteria, the various funds and entities shown in this report are considered as part of the reporting entity.

The Statistical Section includes selected financial, demographic, and operating information, generally presented on a multi-year basis.

Profile of the Government

Located in America's heartland in the Midwest, Indiana is a leading manufacturing state and a major agricultural producer. The latest U.S. Census Bureau estimate places Indiana's population at 6,345,289 which makes Indiana the nation's 15th largest State. The State is 70.8% urban and 29.2% rural. The five largest cities are Indianapolis, the capital, Fort Wayne, Evansville, South Bend and Gary.

Indiana became the 19th State of the Union on December 11, 1816. The State Constitution establishes the government in three separate departments: legislative, executive including administrative, and judicial. The legislative power of the State is vested in the Indiana General Assembly, which consists of a 100 member House of Representatives and a 50 member Senate. The Indiana General Assembly has the power to enact laws which are not prohibited by the State Constitution and not in conflict with Federal laws and powers. The executive power of the State is vested with the Governor. The State Constitution and legislation establish the following Statewide elected administrative officials: Lieutenant Governor, Auditor of State, Secretary of State, Treasurer of State, Attorney General, and the Superintendent of Public Instruction. The judicial power of the State is vested in one Supreme Court consisting of five justices, one Court of Appeals consisting of 15 judges, 313 Trial Courts (including Circuit Courts), and one Tax Court.

The State government provides a wide range of services to the citizens of Indiana, including education, transportation, public health, public safety, welfare, and conservation, culture and economic development.
This report includes the financial activities and balances of the State of Indiana and its component units. The component units are legally separate entities for which the State of Indiana has financial responsibility and include State funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Indiana. More information on the financial reporting entity can be found in Note I(A) in the notes to the financial statements.

The Indiana General Assembly meets every other year to adopt a biennial budget, which is submitted by the Governor. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated funding sources. Budgetary control is exercised in that agencies of the State may only expend appropriations as allotted by the Budget Agency or other statutory authority. The State Board of Finance, which consists of the Governor, Auditor of State, and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The Office of Management and Budget may transfer, assign and reassign appropriations made for one specific purpose to another use or purpose within the same agency.

Factors Affecting Economic and Financial Conditions

The information presented in the financial statements is better understood within the context of the specific environment within which the State of Indiana operates. The following describes that environment.

Local Economy

With an estimated 2007 Gross Domestic Product of $246.4 billion, Indiana's economy ranked 18th largest in the U.S. in terms of the value of goods and services. In 2006, Indiana ranked 3rd among the fifty states in terms of the value of primary metals production. Indiana ranked 7th in the value of fabricated metal products, 10th in the production of manufacturing machinery, 3rd in the value of motor vehicles bodies and parts, and 7th in chemical manufacturing. According to published U.S. Census Bureau data, Indiana ranked 12th in 2006 in exports of manufactured goods.

In 2007, the manufacturing sector accounted for 18% of the jobs in Indiana compared to 21.5% in 2001. The share of employment accounted for by the health care and social services sector increased from 11.1% in 2001 to 18% in 2007. Between 2001 and 2007, per capita personal income increased at an average annual rate of 3.17%. In 2007, the State's unemployment rate averaged 4.5%. Through the first eight months of 2008, the unemployment rate averaged 5.5%.

Cash Management and Investments

Cash temporarily idle during the year was invested in deposit accounts, obligations of the U.S. Treasury and U.S. Agencies, money market mutual funds, and repurchase agreements. The pension trust funds' portfolios include other investments as outlined in Note I(D)(1) in the notes to the financial statements. The average yield on investments, except for the pension trust funds, was 4.50%. The State's investment policy is to minimize credit and market risks while maintaining sufficient liquidity and earning a competitive yield on its portfolio. Deposits are insured by federal and State depository insurance.

Debt Administration

The commissions and authorities, some of which are included as component units in the financial reporting entity of the State of Indiana, issue bonds for some of the State's capital needs. All of the bond issues are revenue bonds associated with specific State component units. The total of long-term revenue bonds and notes outstanding, net of amortized discounts, is $13.79 billion at June 30, 2008.

Financial Policies

In 2005, Governor Daniels created the Office of Management and Budget (OMB) as an umbrella organization to better coordinate the State's financial policies. The OMB consists of the Department of Administration, Department of Government Efficiency and Financial Planning, the Department of Local Government Finance, the Department of Revenue, the Public Employees' Retirement Fund, the State Board of Accounts, the State Budget Agency, the Teachers' Retirement Fund, and the Indiana Finance Authority.

In June 2008, Indiana achieved its third consecutive balanced budget, with annual revenues exceeding expenditures by $321 million. Governor Daniels insists upon structurally balanced budgets without relying upon one-time revenues or other accounting gimmicks. Controlling the growth of spending has enabled Indiana to not only achieve balanced budgets, but also repay debts to local government, schools, and universities, which at their peak, totaled over $750 million. One-time revenues, such as those generated by the Tax Amnesty program several years ago, have been used to repay one-time debt rather than being built into revenue forecasts to support on-going expenditures.

For the first time in the State's history, Indiana's credit rating has been raised to AAA, the highest rating assigned by the independent credit rating agency Standard & Poor's Ratings Service (S&P). The rating increase means, for example, that 228 of the State's school corporations can borrow money at a lower interest rate.

The S&P report noted that the administration has made significant financial management changes and strengthened budgeting practices. S&P cited four areas in issuing the AAA credit rating: a stable and diversifying economic base despite continued manufacturing concentration; a conservative biennial budget that will add to the fund balance by the end of the biennium; property tax reform that has clarified the state's financial responsibilities; and, low overall debt levels.

Long-Term Financial Planning

The Indiana Finance Authority is charged with developing, implementing, maintaining and monitoring a debt management plan for all non-conduit debt or debt-related obligations issued by State Issuers. This plan is intended to provide guidance in the structuring, sale, monitoring, and post-issuance compliance for all State-related debt.

The OMB continues to make modifications and improvements to the capital budgeting process to provide a more comprehensive analysis of the State's capital assets and corresponding budgetary needs to maintain existing infrastructure. Comprehensive, 10-year master plans are being developed and/or updated for all state facilities that will consist of very detailed information on each facility, including use, square footage, systems information, replacement reserve schedules, preventive maintenance, new construction/renovations, and how all of this aligns with available funding resources.

In 2008, the Pew Center on the States and *Governing* magazine released a report from the Government Performance Project assessing the quality of management in the 50 states. In this report, Indiana was highlighted as having "moved into fiscal balance by going beyond one-time budget fixes" and for having a four-year horizon to make fiscal decisions.

Major Initiatives

K-12 Education – The Indiana State Board of Education continued to implement a plan to improve Indiana's statewide assessment system. The focus of the plan is to expand the assessment system to include diagnostic exams as a resource for local education agencies. In addition, the State will begin administering the statewide NCLB assessment in the spring beginning with the 2008-2009 academic year. Governor Mitch Daniels and the 2007 General Assembly increased funding for full-day kindergarten by $25.0 million in FY 2008 and $50.0 million in FY 2009 over the FY 2007 level.

Governor Daniels and the 2008 General Assembly enacted HB 1001 which provided for sweeping property tax reform. Part of this reform included the assumption by the State's general fund of the share of tuition support previously paid by local property tax dollars. Beginning January 2009, the State will assume 100% of K-12 tuition support. This will allow school corporations to receive payments monthly and without delay. As part of HB 1001, Governor Daniels set aside $400 million in the new State Tuition Reserve Fund, two-and-a-half years ahead of the legislative schedule. The state share of tuition support increased 1.5% in FY 2008 and is scheduled to increase 35% in FY 2009, due in large part to the state's assumption of 100% of the local share of tuition support. The total state funding for K-12 education increased by $1.2 billion dollars for FY 2009 as a result of HB 1001.

Higher Education – Indiana continued its commitment to Higher Education through annual increases in University and aid related funding. Appropriations for state aid to students attending public and private colleges and universities, provided through the State Student Assistance Commission for Indiana, increased 10.6% in FY 2008 and will increase an additional 3.1% in FY 2009. The General Assembly increased Higher Education non-capital funding by 3.54% in FY 2008 and 4.72% in FY 2009, resulting in $153.6 million of new funding over the biennium compared to the previous biennium.

In addition, the 2007-2009 budget authorized 31 new capital projects resulting in $397.3 million of estimated state appropriation fee replaced debt service, $121.0 million of estimated non-state appropriation fee replaced debt service, and $20.4 million of direct appropriations for capital projects. The Office of Management and Budget and the Commission for Higher Education have prioritized the release of authorized projects due to the unprecedented level of authorized bonding authority. Additionally, the General Assembly appropriated $62.1 million over the 2007 – 2009 biennium for Repair and Rehabilitation Repayment to higher education institutions.

Public Safety – The Indiana Department of Correction (DOC) has taken an innovative green approach to energy management that not only reduces the State's dependence on fossil fuels, but also saves Indiana taxpayers millions of dollars over the next decade while providing $35 million in capital infrastructure upgrades to various facilities.

The most important component of the Energy Savings Performance Contracts (ESPCs) is the replacement of fossil fuel boilers at various DOC facilities with new biomass boilers that are fueled by waste wood chips. In addition to the biomass boilers, energy savings initiatives include providing upgrades and controls measures to various energy systems, including water, lighting, steam, and electrical systems. Finally, the first windmill (wind turbine) was installed at a DOC facility, and now draws enough energy through wind power to supplement a significant percentage of electrical power at a large facility training building.

Through a host of cost-savings initiatives, such as the ESPCs described above, the DOC has reduced offender per diems from $58.99 in FY 2005 to $52.61 in FY 2008. With more than 28,000 offenders in the DOC, these per diems reflect more than $65 million in reduced annual expenditures.

The Indiana National Guard has made great strides this year in the effort to transform the Muscatatuck State Developmental Center located near North Vernon, Indiana, into the Muscatatuck Urban Training Center (MUTC). The federal government is investing millions of dollars to develop this facility into a premier, one-of-a-kind training facility.

The Hoosier Youth Challenge Academy serves as an opportunity to challenge selected 16-18 year old Hoosier youths to change their life styles to become productive citizens. This program aims to enhance the education level of the selected youths who have dropped out of high school by teaching them to the attainment of the General Education Degree (GED). Thus far it has graduated two classes with a total of 86 students completing the course and 32 students receiving a GED. Additionally, reading and math skills greatly improved in both classes with a beginning 6^{th} grade level average improving to an 8^{th} grade level in the 22-week course. Over 2,500 hours of community service has been completed by both classes.

The Indiana National Guard provided support throughout the state during times of natural disasters such as the floods, tornados and snow storms that were experienced this past year. Over 1,100 soldiers were mobilized for State Active Duty in June 2008 in support of floods that ravaged the state from one end to the other.

With the addition of more than 250 troopers to Indiana's roads, the Indiana State Police dramatically increased overall traffic safety efforts, resulting in a reduction in deaths on Indiana roadways. Total annual traffic arrests and warnings increased from 345,403 in June 2006 to 616,501 in June 2008, an increase of 78.4%. The result of increased traffic enforcement efforts was a reduction of traffic fatalities from 938 in 2005 to fewer than 900 in 2007. Likewise, Driving Under the Influence (DUI) arrests have also increased from 2,430 in June 2006 to 3,465 in June 2008, an increase of 42.5%. Consequently, alcohol-related fatal crashes decreased from 333 in June 2006 to 294 in June 2008, an 11% reduction.

For the first three fiscal years of Governor Daniels' Major Moves program, 90% of the originally scheduled new capacity projects have been completed or are under construction. The remaining six projects have been rescheduled either because of a request by the local community to reexamine the scope of work or due to a permitting or scheduling delay. INDOT is executing the 10-year, $12B construction program as a result of the lease of the Indiana Toll Road.

INDOT is aggressively working to advance as much work as possible from later construction years. This helps to defeat increasing construction inflation and delivers the benefits of the new highways much earlier.

INDOT spent more than a billion dollars on new construction and maintenance in FY 2008, more than double the amount spent a decade ago, capping off a record-setting year for Hoosier transportation infrastructure. In addition to state highway projects, all 92 Indiana counties also received additional funds in FY 2008 for their local transportation projects, totaling $75 million.

Project Hoosier SAFE-T, a statewide system that allows law enforcement, fire, emergency and public officials to seamlessly communicate, continues to progress. To date, more than 40,000 radio IDs from all 92 Indiana counties are programmed into the SAFE-T system database. These numbers include first responders from 290 local and county law enforcement agencies; 62 EMS providers; 16 State Agencies; 21 school districts; 68 hospitals; 29 universities/colleges; and three federal agencies. 132 communications sites are operational on the system.

Health and Human Services – Created by Governor Daniels and the Indiana General Assembly in 2007, the Healthy Indiana Plan (HIP) will provide health insurance to approximately 130,000 Hoosiers, including childless adults. Funding for HIP comes from an increase in the Indiana cigarette tax and is expected to bring in $1.1 billion in new federal funds to Indiana over the next 5 years. The program was established within 8 months and began in January 2008. To date, the State has received over 80,000 applications and over 29,000 Hoosiers are currently on the program.

In October 2007, FSSA expanded the Child Care Development Fund and increased eligibility guidelines so families can continue to receive child care as they advance in their jobs. By January 2008, the program was serving 37,473 children, up from approximately 35,000 one year ago, and the waitlist period had been cut by more than half. Similarly, the wait list for the Community and Home Options to Institutional Care for the Elderly and Disabled (CHOICE) program was reduced by more than 60 percent by January 2008, the lowest since 1999. In addition, community-based Medicaid placements have reached an all time high of 5,577 – an increase of 76.5 percent since 2005.

The Children's Health Insurance Plan (CHIP) spent $109.0 million in FY 2008, an increase of $4.1 million from FY 2007 (or 4%). The average number of clients served was 70,600 in FY 2007 and 71,200 in FY 2008. The average monthly enrollment for FY 2007 Medicaid, excluding CHIP, was 787,300. The average monthly enrollment for FY 2008, excluding CHIP, was 814,200, an increase of 3.2% over FY 2007.

In its third year of operations, the Department of Child Services (DCS) continued the implementation of a practice reform initiative designed to improve outcomes for children and families by strategically funding and assessing prevention initiatives. As a result, the Department's statewide removal percentage trended downward by 17% from March 2006 to March 2008. The downward trending is important because unnecessarily removing a child from his or her home is traumatic for the child and costly for taxpayers.

The DCS increased the number of filled FCM (Family Case Manager) positions by 424 in FY 2008, for a total of 1,579 filled positions and 13 vacancies as of June 30, 2008. The DCS has hired all the planned additional FCMs and FCM supervisors in FY 2008. The newly hired FCMs and FCM supervisors allowed the DCS to meet its goal of achieving caseload standards of 12 new investigations per month per worker and 17 ongoing cases per worker in every county by July 1, 2008.

The DCS works to reduce the amount of child support which is past due. The percentage of cases paying past due amounts has increased from 55 percent to 63 percent since 2004, now exceeding the national average of 60 percent.

In FY 2008, the Childhood Immunization program received an $11 million appropriation from the Indiana Check-up Plan Trust Fund to provide vaccines for eligible Medicaid, low-income, or under-insured children. This appropriation was used to supplement federal dollars to purchase vaccines to be distributed to local health departments and non-profit health organizations to immunize children. This program functioned as the statewide purchasing and coordinating point for the federal Vaccines for Children Program. In addition, the Health Department purchased $9.5 million of pandemic flu medication to have a ready stockpile in case of a pandemic emergency.

Economic Development – The Indiana Economic Development Corporation ("IEDC") continues to aggressively identify and win new economic opportunities for Indiana. Total competitive project activity (consisting of projects completed between July 1, 2007 and June 30, 2008) resulted in commitments to create 15,217 jobs and invest over $3.5 billion of private capital in Indiana. Major projects completed during this period include:

- The Honda Manufacturing of Indiana/One Solution Logistics of Indiana joint venture will result in the construction of a new 390,000 sq. ft. automotive plant in Decatur County. When operational in 2009, the $578 million project will produce more than 200,000 automobiles annually, as well as adding over 2,000 new jobs to the State of Indiana.
- EnerDel, a leading force in the development of Lithium-ion battery solutions for automotive manufacturers, plans to build a new facility in Noblesville, Ind., resulting in the creation of more than 855 new jobs and continuing Indiana's commitment to developing alternative energy systems.
- Amazon.com, a national internet marketplace leader, is expanding into Plainfield, Ind., adding more than 350 new jobs.
- Charles Schwab, the world's largest discount brokerage, is expanding its customer service and brokerage operations within the Indianapolis area, adding 300 new jobs and over $10 million in capital investment.

An aggressive program of domestic and international business outreach and new lead generation will help ensure that Indiana's pipeline of new business opportunities remains strong. Domestic outreach efforts include meetings in New York, Chicago, Dallas, and Atlanta with industry and company leaders to discuss the benefits of locating their businesses in Indiana. Efforts aimed at international investment included a Governor-led mission to Japan in September, 2007, for the annual Midwest U.S.-Japan Association Conference, and a follow-up mission to Japan by the IEDC in June, 2008. The IEDC hosted visiting international delegations from China, Japan, Taiwan, and the Chicago International Trade Commissioners Association. As a result, Indiana continues to be a primary destination for international investment, including:

- Global steel giants ArcelorMittal and Japan-based Nippon Steel Corporation are expanding their I/N Kote joint venture in New Carlisle, creating 100 new jobs by 2010.
- Japanese-owned Sony DADC is expanding its Blu-ray disc manufacturing operations in Terre Haute, adding 85 jobs.
- Spanish transmission components maker Miasa Automotive LLC is expanding operations in Yorktown, creating more than 55 new jobs by 2012.

At the same time, the amount of assistance the State of Indiana has provided to companies for job creation has declined significantly since 2004. That year, Indiana provided an average of $37,652 in state financial incentives per job. As of June 30, 2008, state incentives averaged only $6,946 per job. That dramatic decrease proves that Indiana's overall low-cost, pro-business economic environment is a major attraction for job-creating company investments.

General Government – Retirement Medical Benefits accounts have been established as Health Reimbursement Arrangements (HRAs) for all employees and elected officials of the state. The purpose of this defined contribution plan is to allow retirees from state government to have a means to assist with the payment of health insurance premiums in retirement. The source of funds for this will come from annual contributions by the State that will be credited to each employees account based upon their age. There is also a catch up provision allowing for additional contributions based upon the number of years of service completed by the qualified retiree who retires prior to June 30, 2017. The total cost of the program in FY 2008 exceeded $56 million.

In May 2008, Governor Daniels announced $19 million in new investment for trails development as part of his *Hoosiers on the Move* statewide trails plan, a 10-year plan which calls for every Hoosier to be within 15 minutes of a trail. These funds are in addition to the $20 million the State invests annually as part of the trails initiative to connect communities throughout the state.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Indiana for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the fifteenth consecutive year that the State of Indiana has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

We acknowledge the cooperation and assistance of all State agencies in the preparation of this report.

Sincerely,

Tim Berry

Tim Berry
Auditor of State
State of Indiana

Ryan C. Kitchell

Ryan Kitchell
Director
Office of Management and Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

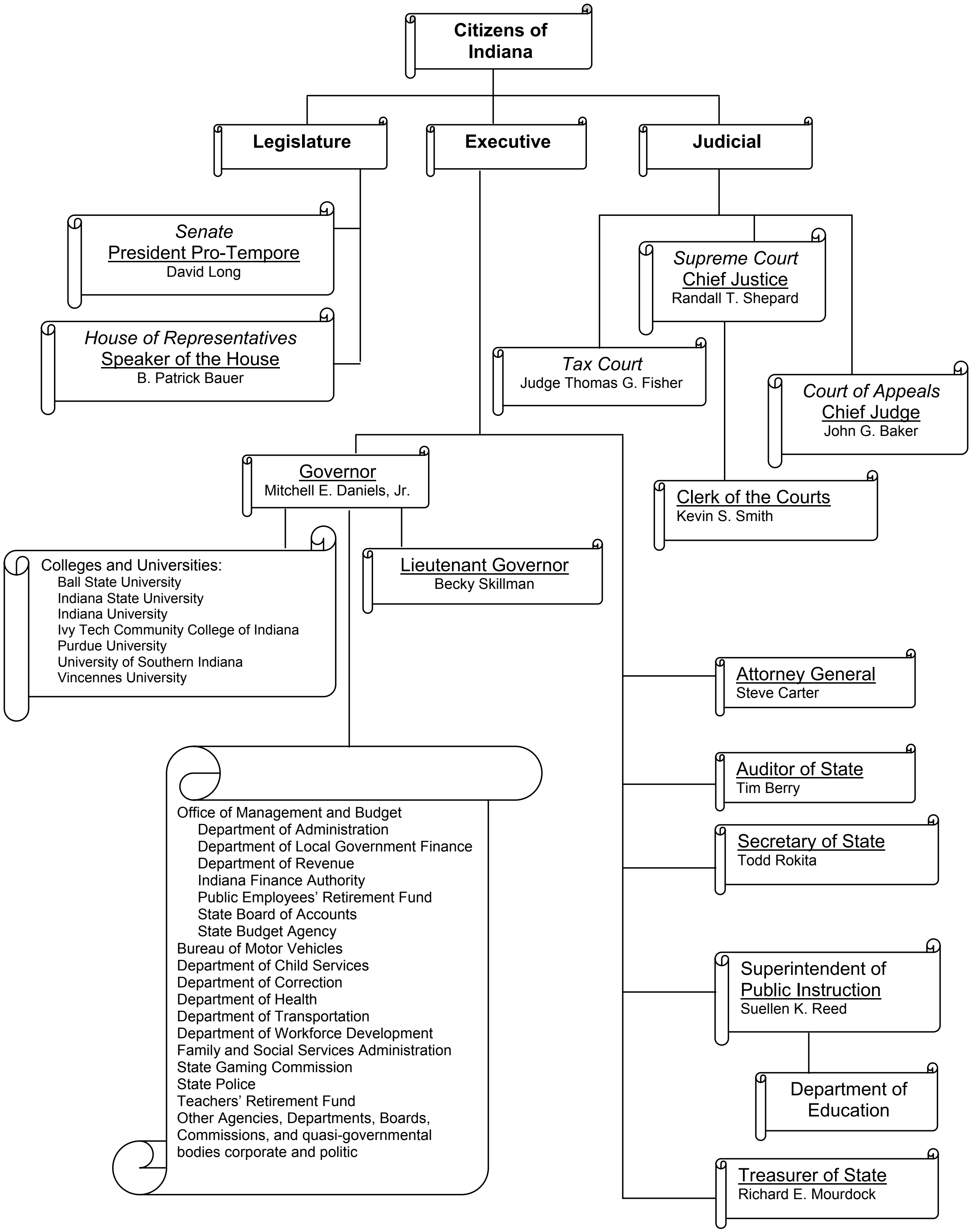
State of Indiana

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director


Citizens of Indiana
Legislature
Executive
Judicial
Senate
President Pro-Tempore
David Long
House of Representatives
Speaker of the House
B. Patrick Bauer
Supreme Court
Chief Justice
Randall T. Shepard
Tax Court
Judge Thomas G. Fisher
Court of Appeals
Chief Judge
John G. Baker
Clerk of the Courts
Kevin S. Smith
Governor
Mitchell E. Daniels, Jr.
Lieutenant Governor
Becky Skillman
Colleges and Universities:
Ball State University
Indiana State University
Indiana University
Ivy Tech Community College of Indiana
Purdue University
University of Southern Indiana
Vincennes University
Office of Management and Budget
Department of Administration
Department of Local Government Finance
Department of Revenue
Indiana Finance Authority
Public Employees' Retirement Fund
State Board of Accounts
State Budget Agency
Bureau of Motor Vehicles
Department of Child Services
Department of Correction
Department of Health
Department of Transportation
Department of Workforce Development
Family and Social Services Administration
State Gaming Commission
State Police
Teachers' Retirement Fund
Other Agencies, Departments, Boards, Commissions, and quasi-governmental bodies corporate and politic
Attorney General
Steve Carter
Auditor of State
Tim Berry
Secretary of State
Todd Rokita
Superintendent of Public Instruction
Suellen K. Reed
Department of Education
Treasurer of State
Richard E. Mourdock